



Panama: Political and Economic Conditions and U.S. Relations

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Summary

With four successive elected civilian governments, the Central American nation of Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the regime of General Manuel Noriega from power. The current President, Martín Torrijos of the center-left Democratic Revolutionary Party (PRD), was elected in May 2004 and inaugurated to a five-year term in September 2004. Well into his fifth and final year in office, President Torrijos has faced such major challenges as dealing with the funding deficits of the country's social security fund; combating unemployment, poverty, and crime; and developing plans for the expansion of the Panama Canal. In 2006, the government unveiled its ambitious plans to build a third lane and new set of locks that would double the Canal's capacity, and the project began in September 2007. Panama's service-based economy has been booming in recent years, but the global financial crisis and U.S. economic recession has begun to slow economic growth and the economy is expected to contract in 2009.

Panama is scheduled to hold presidential and legislative elections on May 3, 2009. The two leading candidates are former government minister Ricardo Martinelli of the small centrist Democratic Change party and former housing minister Balbina Herrera of the ruling PRD. Martinelli has topped opinion polls since late 2008, and his lead in the polls increased in 2009 after he struck a deal with the candidate of the Panameñista Party, Juan Carlos Varela, to become his running mate in an electoral coalition dubbed the Alliance for Change.

The United States has close relations with Panama, stemming in large part from the extensive linkages developed when the canal was under U.S. control and Panama hosted major U.S. military installations. The current relationship is characterized by extensive counternarcotics cooperation, assistance to help Panama assure the security of the Canal, and a proposed bilateral free trade agreement (FTA). U.S. aid to Panama (including Peace Corps assistance) amounted to \$12.2 million in FY2007 and an estimated \$10.6 million in FY2008, including \$2.9 million in FY2008 supplemental assistance under the Mérida Initiative. That program provides aid to Mexico and Central America to combat drug trafficking, gangs, and organized crime. For FY2009, an estimated \$20.5 million will be provided to Panama, including \$8.9 million under the Mérida Initiative.

In June 2007, the United States and Panama signed a proposed bilateral FTA, which includes enforceable labor and environmental provisions that had been agreed upon in a bipartisan deal between U.S. congressional leaders and the Bush Administration in May 2007. Panama's National Assembly overwhelmingly approved the agreement in July 2007. The U.S. Congress had been likely to consider implementing legislation in the fall of 2007, but the September 1, 2007 election of Pedro Miguel González to head Panama's legislature for one year delayed consideration. González is wanted in the United States for his alleged role in the murder of a U.S. serviceman in Panama in 1992. His term expired September 1, 2008, and González did not stand for re-election. As a result, the 111th Congress may turn to consideration of implementing legislation for the FTA. For more, see CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck.

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Most Recent Developments

On May 3, 2009, Panama is scheduled to hold elections for President and for the 74-member National Assembly. The two leading presidential candidates are businessman and former government minister Ricardo Martinelli of the Democratic Change party and Balbina Herrera of the ruling Democratic Revolutionary Party.

On January 27, 2009, presidential candidate Ricardo Martinelli of the Democratic Change party struck a deal with the candidate of the Panameñista Party, Juan Carlos Varela, to become his running mate in an electoral coalition dubbed the Alliance for Change.

On September 17, 2008, President Bush met with President Torrijos at the White House, where talks included the status of the bilateral free trade agreement.

On September 7, 2008, former housing minister Balbina Herrera of the ruling Democratic Revolutionary Party won her party's presidential primary for the May 6, 2009 presidential election. In the primary, Balbina narrowly defeated Juan Carlos Navarro, the mayor of Panama City.

On September 1, 2008, Pedro Miguel González, wanted in the United States for his alleged role in the murder of a U.S. serviceman in Panama in 1992, ended his one-year term as president of Panama's National Assembly, and a new Assembly president was elected.

In August 2008, President Torrijos approved five decree laws reorganizing Panama's law enforcement and security services. This included the creation of a National Border Service and a National Intelligence and Security Service.

On July 6, 2008, businessman Juan Carlos Varela easily won the presidential primary election as a candidate for the opposition Panameñista Party.

On May 19, 2008, lawyers for former Panamanian leader Manuel Noriega asked a U.S. appeals court to block his extradition to France on drug-money laundering charges. Noriega was scheduled to be released on September 9, 2007, from federal prison in Miami after being imprisoned for nearly 18 years on drug trafficking charges, but will remain in U.S. custody until he exhausts his appeals. Noriega wants to be returned to Panama, where he faces 20 years for conviction on a variety of charges.

On September 3, 2007, Panama officially launched its Canal expansion project, with a ceremony led by former President Jimmy Carter, whose Administration negotiated the Panama Canal Treaties.

On September 1, 2007, Panama's legislature elected Pedro Miguel González of the ruling Democratic Revolutionary Party as head of the legislature for a one-year term. The State Department issued a statement expressing deep disappointment about the election of González because of his indictment in the United States for the murder of U.S. Army Sergeant Zak Hernández and the attempted murder of U.S. Army Sergeant Ronald Marshall in June 1992. According to the State Department, there is an outstanding U.S. warrant for his arrest. Although González was acquitted for the Hernández murder in 1997, observers maintain that the trial was marred by jury rigging and witness intimidation.

On July 11, 2007, Panama's unicameral legislature overwhelmingly approved the proposed bilateral U.S.-Panama free trade agreement by a vote of 58 to 3, with 1 abstention.

On June 28, 2007, Panama and the United States signed a bilateral free trade agreement, which includes enforceable labor and environmental provisions pursuant to the bipartisan trade deal negotiated between congressional leaders and the Bush Administration in May 2007.

From June 3-5, 2007, the General Assembly of the Organization of American States (OAS) held its 37th regular session in Panama City focused on the theme of "Energy for Sustainable Development."

On May 10, 2007, congressional leaders and the Bush Administration announced a bipartisan trade deal whereby pending free trade agreements, including the Panama free trade agreement, would include enforceable key labor and environmental standards.

On February 16, 2007, President George W. Bush met with President Torrijos in Washington D.C., with talks focused on the pending free trade agreement and the Canal expansion project.

On February 12, 2007, Panama and the United States signed a declaration of principles intended to lead to Panama's participation in the Container Security Initiative (CSI), operated by the Department of Homeland Security, and the Megaports Initiative, run by the Department of Energy.

On December 19, 2006, the United States and Panama announced the conclusion of negotiations for a free trade agreement, but the United States Trade Representative maintained that the agreement would still be subject to additional discussions on labor in order to ensure bipartisan support in the 110th Congress.

On October 22, 2006, Panamanians approved the Torrijos government's Canal expansion project with over 78% support in a national referendum.

In mid-October 2006, the Centers for Disease Control and Prevention (CDC) helped Panama solve the mystery of recent deaths ultimately traced to contaminated cough syrup from China. At least 100 deaths were traced to the contaminant.

Political and Economic Conditions

Panama has made notable political and economic progress since the December 1989 U.S. military intervention that ousted the military regime of General Manuel Antonio Noriega from power. The intervention was the culmination of two and a half years of strong U.S. pressure against the de facto political rule of Noriega, commander of the Panama Defense Forces. Since that time, the country has had four successive civilian governments, with the current government of President Martín Torrijos elected in May 2004 to a five-year term. Inaugurated on September 1, 2004, Torrijos is the son of former populist leader General Omar Torrijos. His electoral alliance, led by the Democratic Revolutionary Party (PRD), also won a majority of seats in the unicameral National Assembly.

From the Endara to the Moscoso Administration

Endara Government (1989-1994)

Before the U.S. intervention, Panama had held national elections in May 1989, and in the presence of a large number of international observers, the anti-Noriega coalition, headed by Guillermo Endara, prevailed by a three-to-one margin. The Noriega regime annulled the election, however, and held on to power. By the fall, the military regime was losing political power and relied increasingly on irregular paramilitary units, making the country unsafe for U.S. forces and U.S. citizens. On December 20, 1989, President George H.W. Bush ordered the U.S. military into Panama “to safeguard the lives of Americans, to defend democracy in Panama, to combat drug trafficking, and to protect the integrity of the Panama Canal Treaty.” Noriega was arrested on January 3, 1990, and brought to the United States to stand trial on drug trafficking charges.

As a result of the intervention, the opposition coalition headed by Guillermo Endara that had won the May 1989 election was sworn into office. During his term, President Endara made great progress in restoring functioning political institutions after 21 years of military-controlled government, and under his administration, a new civilian Public Force replaced Noriega’s Panama Defense Forces. But Endara had difficulties in meeting high public expectations, and the demilitarization process was difficult, with some police and former military members at times plotting to destabilize, if not overthrow, the government.

Pérez Balladares Government (1994-1999)

In May 1994, Panamanians went to the polls to vote in presidential and legislative elections that observers called the freest in almost three decades. Ernesto Pérez Balladares, candidate of the former pro-Noriega Democratic Revolutionary Party (PRD), who led a coalition known as “United People,” won with 33% of the vote. Placing a surprisingly strong second, with 29% of the vote, was the Arnulfista Party (PA) candidate, Mireya Moscoso de Gruber, heading a coalition known as the “Democratic Alliance.”

In the electoral race, Pérez Balladares campaigned as a populist and advocated greater social spending and attention to the poor. He stressed the need for addressing unemployment, which he termed Panama’s fundamental problem. Pérez Balladares severely criticized the Endara government for corruption, and he was able to overcome attempts to portray him as someone

closely associated with General Noriega. (Pérez Balladares served as campaign manager during the 1989 elections for candidate Carlos Duque, who the Noriega regime had tried to impose on the electorate through fraud.) Instead, Pérez Balladares focused on the PRD's ties to the populist policies of General Omar Torrijos, whose twelve-year (1969-1981) military rule of Panama ended when he died in a plane crash in 1981.

President Pérez Balladares implemented an economic reform program that included liberalization of the trade regime, privatization of state-owned enterprises, the institution of fiscal reform, and labor code reform. Tariffs were reduced to an average of 8%.

Pérez Balladares also worked closely with the United States as the date of the Panama Canal turnover approached. Under his government, Panama and the United States held talks on the potential continuation of a U.S. military presence in Panama beyond the end of 1999 (the date Panama was to assume responsibility for defending the Canal). Ultimately negotiations ended without such an agreement.

Although Panama's constitution does not allow for presidential reelection, President Pérez Balladares actively sought a second term in 1999. In 1997, the PRD had begun studying the possibility of amending the constitution to allow a second bid for the presidency in the May 1999 elections. Ultimately, a referendum was held on the issue in August 1998 but failed by a large margin.

Late in his administration, Pérez Balladares became embroiled in a scandal involving the illegal sale of visas to Chinese immigrants attempting to enter the United States via Panama. As a result, U.S. officials cancelled the former president's U.S. tourist visa in November 1999.¹

Moscoso Government (1999-2004)

In her second bid for the presidency, Arnulfista Party (PA) candidate Mireya Moscoso was victorious in the May 1999 elections. Moscoso, who was inaugurated September 1, 1999, for a five-year term, captured almost 45% of the vote and soundly defeated the ruling PRD's candidate Martin Torrijos (son of former populist leader Omar Torrijos), who received almost 38% of the vote. Until March 1999, Torrijos had been leading in opinion polls, but as the election neared, the two candidates were in a dead heat. A third candidate, Alberto Vallarino, heading a coalition known as Opposition Action, received about 17% of the vote.

President Moscoso, a coffee plantation owner and Panama's first female president, ran as a populist during the campaign, promising to end government corruption, slow the privatization of state enterprises, and reduce poverty. She also promised to ensure that politics and corruption did not interfere with the administration of the Canal. The memory of her husband Arnulfo Arias, a nationalist who was elected three times as president, but overthrown each time, was a factor in the campaign, particularly since Arias was last overthrown in 1968 by General Omar Torrijos, the father of the PRD's 1999 and 2004 presidential candidate.

Although Moscoso took the presidency, the PRD-led New Nation coalition won a majority of 41 seats in the 71-member unicameral Legislative Assembly. Just days before her inauguration,

¹ "Ex-Leader of Panama Linked to Visa Sales," *Washington Post*, November 27, 1999; Pablo Bachelet, "U.S. Uses Visas to Combat Corruption," *Miami Herald*, February 21, 2006.

however, Moscoso was able to build a coalition, with the support of the Solidarity Party, the Christian Democratic Party (which later became the Popular Party), and the National Liberal Party, that gave her government a one-seat majority in the Assembly. In August 2000, the Christian Democrats deserted the coalition and formed an alliance with the principal opposition, the PRD. However, corruption scandals in 2002 led to five PRD legislators defecting to support the Moscoso government, once again giving the President majority support in the Legislative Assembly.

The Moscoso government partially reversed the trade liberalization process of the Pérez Balladares by raising tariffs on some agricultural products, some of which reached the maximum rate allowed under Panama's World Trade Organization obligations.²

As noted above, Moscoso was elected as a populist, with pledges to end government corruption and reduce poverty, but her campaign pledges proved difficult to fulfill amid high-profile corruption scandals and poor economic performance. As a result, the President's popularity declined significantly from a 70% approval rating when she first took office in 1999 to only 15% in 2004.³

Torrijos Government (2004-2009)

May 2004 Elections

On May 2, 2004, Panama held elections for president, as well as for a 78-member National Assembly (formerly known as the Legislative Assembly). In the presidential race, Martín Torrijos of the PRD won a decisive victory with 47.5% of the vote, defeating former President Guillermo Endara, who received 30.6% of the vote, and former Foreign Minister José Miguel Alemán, who received 16.4% of the vote. Torrijos' electoral alliance also won a majority of seats in the unicameral legislature, 43 out of 78 seats, which should provide him with enough legislative support to enact his agenda. Elected at 40 years of age, Torrijos spent many years in the United States and studied political science and economics at Texas A&M University. He served four years under the Pérez Balladares government as deputy minister of interior and justice, and as noted above, became the PRD's presidential candidate in the 1999 elections.

Leading up to the election, Torrijos had been topping public opinion polls, with 42%-49% support. In the campaign, he emphasized anti-corruption measures as well as a national strategy to deal with poverty, unemployment, and underdevelopment. He was popular among younger voters and had a base of support in rural areas. Torrijos maintained that his first priority would be job creation.⁴ He called for the widening of the Canal, a project that would cost several billion dollars, and would seek a referendum on the issue. During the campaign, all three major candidates supported negotiation of a free trade agreement with the United States, maintaining that it would be advantageous for Panama. Endara and Alemán appeared to emphasize the protection of some sensitive Panamanian sectors such as agriculture, while Torrijos stressed that such an agreement would make Panama's economy more competitive and productive.⁵

² United States Trade Representative, *2006 National Trade Estimate Report on Foreign Trade Barriers*, p. 501.

³ "Toss Up Between Torrijos and Endara," *Caribbean and Central America Report*, February 17, 2004.

⁴ Frances Robles, "Ex-leader's Son Wins Presidency in Panama," *Miami Herald*, May 3, 2004.

⁵ "Panama: Presidential Candidates Remark on FTA with US," *La Prensa* (Panama), January 24, 2004, translated by (continued...)

Challenges for the Torrijos Government

Well into his fifth and final year in office, President Torrijos has faced such major challenges as dealing with the deficits of the country's social security fund (Caja de Seguro Social, CSS); developing plans for the expansion of the Panama Canal; combating unemployment, poverty, and increasing crime; and contending with the effects of the global financial crisis and U.S. recession on the Panamanian economy.

After protests and a protracted strike by construction workers, doctors, and teachers in June 2005, the Torrijos government was forced to modify its plans for reforming the social security fund. After a national dialogue on the issue, Panama's National Assembly approved a watered-down version of the original plan in December 2005. The enacted reform did not raise the retirement age but will gradually increase required monthly payments into the system and introduces a dual pension system that combines aspects of privatization with the current system.⁶ In mid-December 2007, an almost six-week strike by doctors in the public healthcare system was resolved, with the government offering a 26.7% increase in salaries equivalent and a commitment not to privatize the system.⁷

In April 2006, the government unveiled its ambitious plans to build a third set of locks that would double the Canal's capacity, and allow larger post-Panamax ships to transit the Canal. Panama's Cabinet approved the expansion plan in June, and the National Assembly approved it in July 2006. A referendum on the expansion project took place on October 22, 2006, with 78% supporting the project. The referendum was viewed as a victory for the Torrijos government, which advanced the project as integral to Panama's future economic development and one that helped restore the President's popularity.⁸

The Torrijos government's agenda also has included judicial, penal and anti-corruption reforms, as well as an economic development strategy to target poverty and unemployment. The government implemented a new penal code in May 2008 that takes a tougher stance on crime by increasing sentences on serious crimes and other measures. In early July 2008, Panama's National Assembly gave President Torrijos powers to carry out security sector reforms over the next two months. In August 2008, President Torrijos enacted five decree laws reorganizing Panama's law enforcement and security services, including the establishment of a National Border Service and a National Intelligence and Security Service (SENIS). Some critics fear that the actions will lead to Panama's re-militarization, while Torrijos maintains that the new agencies are needed to combat growing drug crimes.⁹ In mid-December 2008, the Torrijos government approved additional changes to the penal code that increased penalties for the illegal possession of firearms and introduced sentences for attacking a police official.¹⁰

(...continued)

Foreign Broadcast Information Service.

⁶ Marion Barbel, "Panamanian Congress Approves Modified Social Security Reform," *World Markets Research*, December 22, 2005

⁷ "Panama: Country Report," *Economist Intelligence Unit*, January 2008, p. 2.

⁸ Richard Lapper, "Good Luck, Good Timing," *Financial Times*, July 24, 2007.

⁹ "Panama: Torrijos to Undertake Security Reform by Decree," *Latin American Weekly Report*, July 3, 2008; "Torrijos Forges Ahead with Security Decrees," *Latin American Regional Report, Caribbean and Central America*, September 2008.

¹⁰ "Panama: Torrijos Pushes Through Changes to Penal Code," *Latin American Weekly Report*, December 18, 2008

Panama's service-based economy had been booming in recent years, largely because of the Panama Canal expansion project, but the global financial crisis and the related decline in U.S. import demand stemming from the U.S. recession has begun to slow down Panama's economic growth and the economy is expected to contract in 2009. The economy grew 11.5% in 2007 and 9.2% in 2008, fueled by the Canal expansion project, but is projected to contract 1.3% in 2009, the first decline in a decade.¹¹ In January 2009, President Torrijos announced the establishment of a \$1.1 billion fund to allow for eased credit access and loans to financial institutions in Panama. The fund—which is being financed with support from the Inter-American Development Bank, the Andean Development Corporation, and the National Bank of Panama—was established in order to counter the tightening of credit because of the global financial crisis.¹²

Although Panama is categorized by the World Bank as having an upper-middle-income economy because of its relatively high per capita income level of \$5,510 (2007), one of the country's major challenges is highly-skewed income distribution with large disparities between the rich and poor.¹³ In order to tackle poverty, the Torrijos government initiated a social support program of conditional cash transfers to poor families (Red de Oportunidades) and in mid-2008, the government extended the program to include the elderly living in extreme poverty. High inflation averaging almost 9% in 2008 has made efforts to combat poverty more difficult, but inflation is expected to be cut by half in 2009. Poverty rates have been reduced from almost 37% in 2002 to 29% in 2007, but the slowdown in economic growth because of the global economic crisis and U.S. recession threaten to erode progress that has been made in recent years.

May 2009 Elections

Panama is scheduled to hold presidential and legislative elections on May 3, 2009. Since the Constitution does not allow for re-election, President Torrijos cannot be a candidate. As a result, jockeying began in early 2008 among presidential aspirants.

While initially in 2008 it appeared that the candidate of the ruling center-left PRD was favored to win, former housing minister Balbina Herrera, opinion surveys late in the year reflected a significant shift in favor of businessman and former government minister Ricardo Martinelli of the centrist Democratic Change (CD) party. Polls in January 2009 showed Martinelli with 43% support compared to 25% for Herrera and almost 15% for businessman Juan Carlos Varela of the center-right Panameñista Party (PP, formerly the Arnulfist Party).¹⁴ In late January 2009, Martinelli and Varela struck a deal to run together in a coalition dubbed the Alliance for Change, with Martinelli leading the ticket and Varela as his running mate. The new alliance further widened Martinelli's lead in opinion polls to 50-55%, compared to about 29-32% for Herrera.¹⁵ Representing the left-wing of the PRD, Herrera had narrowly won her party's primary in September 2008, defeating the mayor of Panama City, Juan Carlos Navarro, who drew support

¹¹ "Country Report: Panama," *Economist Intelligence Unit*, March 2009.

¹² Marion Barbel, "President Unveils U.S. \$1.1 billion Anti-Crisis Fund in Panama," *Global Insight*, January 23, 2009.

¹³ World Bank, *World Development Report 2009*.

¹⁴ "Panama: Martinelli's Presidential Prospects Strengthen," *Latin American Weekly Report*, January 15, 2009; "Panama Mogul Extends Lead in Election Race – Poll," *Reuters*, January 11, 2009.

¹⁵ "Panama: Martinelli and Varela Seal Alliance," *Latin American Regional Report, Caribbean & Central America*, February 2009; and "Martinelli Increases Lead in Panama," *LatinNews Daily*, February 3, 2009.

from more moderate PRD members. While Herrera ultimately chose Navarro as her running mate in January 2009, the selection has not boosted her candidacy.

The new Alliance for Change electoral coalition is significant because it increases the chances that Martinelli might be elected with a majority of support in Panama's National Assembly, which will have 74 members after the upcoming election. Before the alliance was announced, Martinelli was backed just by his small CD party and two other small parties, the Liberal Republican Nationalist Movement (MOLIRENA) and the Patriotic Union (UP). The addition of Varela's PP to Martinelli's electoral coalition adds the support of Panama's second largest party, which currently has the second largest bloc of representatives in the National Assembly. It should be noted, however, that the ruling PRD remains Panama's largest party overall, accounting for about half of Panama's 1.3 million registered members of political parties. Moreover, in the important race for the mayor of Panama City, current opinion polls show the PRD's candidate with a significant lead over the candidate of the Alliance for Change.¹⁶

During the campaign, there have been some scandals related to campaign financing. In March 2009, a Colombian businessman jailed for involvement in a multi-million dollar pyramid scheme, David Murcia Guzmán, alleged that he had contributed funds to the presidential campaigns of Balbina Herrera and the PRD's mayoral candidate for Panama City. Both candidates denied the accusations, and Herrera accused her main rival, Ricardo Martinelli, of having linkages to the jailed Colombian. An investigation has been opened into the case by Panama's Attorney General.¹⁷

Human Rights

The Panamanian government generally respects human rights, but, as noted by the State Department in its 2008 human rights report (issued in February 2009), serious human rights problems continue in a number of areas. Prison conditions overall remain harsh, with reported abuse by prison guards, and prolonged pretrial detentions remained a problem. According to the report, the judiciary is marred by corruption and ineffectiveness, and is subject to political manipulation. Other serious problems include discrimination and violence against women, trafficking in persons, discrimination against indigenous people and other ethnic minorities, and child labor.

Freedom of the Press. In past years, Panama had been criticized by the State Department and international human rights groups for vestiges of "gag laws" used by the government to silence those criticizing policies or officials, but the legislature repealed these laws in May 2005. Nevertheless, as noted in the State Department's human rights report, the legislature approved penal code amendments in May 2007 that allows for the prosecution of journalists who violate the privacy of public officials or who publish classified information. The new penal code went into effect in May 2008. Nongovernmental organizations assert that the new code threatens freedom of speech and press. As noted in the State Department human rights report, a judge ordered the seizure of a local newspaper, *El Periódico*, in September 2008 because it published the tax returns of a prominent businessman. The paper subsequently went out of business. The

¹⁶ "Panama: Panama City Mayoral Battle Takes Centre Stage," *Latin American Weekly Report*, March 5, 2009.

¹⁷ "Candidates Investigated in Panama," *LatinNews Daily*, March 24, 2009.

New York-based Committee to Protect Journalists expressed alarm over the case, maintaining that it set a chilling precedent for Panama's local press.¹⁸

The State Department human rights report also cited concerns of journalists and press freedom organizations that the government attempts to manipulate the free flow of information through the reward or denial of government advertisements.

Past Human Rights Abuses Under Military Rule. In an attempt to redress human rights abuses that occurred under military rule (1968-1989) and to prevent their reoccurrence, the Moscoso government established a Truth Commission in 2001 that documented 70 cases of murder and 40 disappearances, but progress has been slow in investigation and prosecution of these cases. In October 2008, according to the State Department human rights report, Panama's Attorney General announced that investigations had either been opened or reopened in 47 of these 110 cases because of new evidence. As also noted in the report, the Panamanian government opened an investigation in July 2008 into the alleged killings of more than 20 persons who reportedly were thrown from helicopters in the Darien region in 1982-1983, and in December 2008, the Attorney General charged a former minister of government and justice with homicide for a killing in 1971.

In July 2006, just as a human rights trials was approaching an end, a former military officer implicated in the 1970 killing of activist Heliodoro Portugal died from an apparent heart attack. In September 2008, the Inter-American Commission on Human Rights ordered the Panamanian government to pay \$206,000 to the family of Portugal, and to investigate and prosecute those responsible for the disappearance.

Displaced Persons. In recent years, violence from the civil conflict in neighboring Colombia has resulted in hundreds of displaced persons seeking refuge in the neighboring Darién province of Panama. The Office of the U.N. High Commission for Refugees (UNHCR) reports that there are some 900 displaced Colombians in Panama under temporary humanitarian protection. Their presence is restricted to a small area in the Darién. According to the State Department's human rights report, many of the Colombians have lived in Panama for years, have given birth to children in Panama, and do not want to return to Colombia because of family and cultural ties to local Panamanian communities. While many of the displaced are Afro-Colombians, there have also been indigenous people from Colombia who have fled to Panama because of the violence. In December 2006, Panama recognized 42 members of Colombia's Wounaan indigenous group as refugees.¹⁹

According to UNHCR, there are almost 1,000 recognized refugees in the country. In April 2008, UNHCR lauded Panama for the approval of a new law that will allow long-standing refugees (those residing 10 years or more) the opportunity to apply for permanent residency. According to UNHCR, the new law will largely affect refugees from Nicaragua and El Salvador who arrived in Panama during the Central American conflicts of the 1980s, and will not affect the more recent refugees from Colombia.²⁰

¹⁸ Committee to Protect Journalists, "Judge Orders Seizure of Weekly After Story on Alleged Tax Evasion," September 8, 2008.

¹⁹ "Panama: First Indigenous Colombians Get Refuge," *UNHCR Briefing Notes*, December 15, 2006.

²⁰ "UNHCR Welcomes New Panama Law," *UNHCR Briefing Notes*, April 1, 2008.

Worker Rights. With regard to worker rights in Panama, the State Department's 2008 human rights report notes that while Panamanian law recognizes the right of private-sector workers to form and join unions of their choice, the law requires a minimum of 40 persons to form a union and only one union is allowed per business. The International Labor Organization Committee of Experts criticizes both provisions as violations of workers' rights to organize, according to the State Department human rights report. Public servants may not form unions, but they may form associations, which can bargain collectively, and there is a limited right to strike with the exception of those areas vital for public welfare and security. The National Federation of Public Servants (FENASEP), an umbrella organization of 21 public-sector worker associations is not permitted to call strikes, and the ILO has expressed concerns about this. The State Department report also noted that child labor was a problem, with violations occurring most frequently in rural areas at harvest time and in the informal sector.

U.S. Relations

Background on the 1989 U.S. Military Intervention

The December 20, 1989, U.S. military intervention in Panama, known as Operation Just Cause, was the culmination of almost two and a half years of strong U.S. pressure, including economic sanctions, against the de facto political rule of General Noriega, Panama's military commander. Political unrest had erupted in mid-1987 when a high-ranking Panamanian military official alleged that Noriega was involved in murder, electoral fraud, and corruption, which prompted the formation of an opposition coalition that challenged his rule. The regime nullified the results of May 1989 national elections, which international observers maintain were won by the opposition by a 3-1 margin. It also harassed U.S. citizens in Panama, including the killing of a U.S. Marine lieutenant. President George H. W. Bush ultimately ordered U.S. forces into combat to safeguard the lives of Americans in Panama, to defend democracy, to combat drug trafficking, and to protect the operation of the Panama Canal.

In early January 1990, with the restoration of democracy and Noriega's arrest to face trial in the United States on drug charges, President Bush announced that the objectives of the U.S. intervention had been achieved. In terms of casualties, 23 U.S. soldiers and three U.S. civilians were killed, while on the Panamanian side, some 200 civilians and 300 Panamanian military were killed. While Congress was not in session during the intervention, in general, Members were strongly supportive of the action. In February 1990, the House overwhelmingly approved a resolution, H.Con.Res. 262, stating the President acted appropriately to intervene in Panama after substantial efforts to resolve the crisis by political, economic, and diplomatic means.

Status of Manuel Noriega

In the aftermath of the 1989 U.S. military intervention, General Manuel Noriega was arrested in January 1990 and brought to the United States to stand trial on drug charges. After a seven-month trial, Noriega was convicted on eight out of ten drug trafficking charges in U.S. federal court in Miami in 1992, and sentenced to 40 years in prison. That sentence was subsequently reduced to 30 years, and then to 20 years. With time off for "good behavior," Noriega was scheduled to be released from jail on September 9, 2007, but has remained in U.S. custody pending appeals of his extradition to France.

France is seeking Noriega's extradition, where he faces a 10-year prison sentence for his conviction in absentia in 1999 on money laundering charges, but would be eligible for a new trial. Despite having lost all previous appeals, on May 19, 2008, Noriega's defense filed an appeal on the grounds that the French government would not respect special protections that were granted to him in a 1992 ruling as a "prisoner of war" under the Geneva Conventions. In January 2009, a three-judge panel of the 11th U.S. Circuit Court of Appeals in Atlanta heard arguments in the case.²¹

Noriega wants to return to Panama in order to appeal his convictions in absentia, including for two murders: the brutal killing of vocal critic Hugo Spadafora in 1985; and the killing of Major Moisés Giroldi, the leader of a failed 1989 coup attempt. Panamanian courts sentenced Noriega to at least 60 years in prison, but the law only allows him to serve a maximum sentence of 20 years, and according to some reports, 18 years of Noriega's imprisonment in the United States could be subtracted from his sentence in Panama.²² Nevertheless, according to Panama's attorney general, there are an additional 15 outstanding cases against Noriega, including his responsibility for the deaths of several members of the Panamanian Defense Forces for their involvement in the failed 1989 coup.²³

Noriega's attorneys argue that since Noriega has been recognized as a prisoner of war in the U.S. courts, the United States should repatriate him to his native Panama, insisting that this complies with the Geneva Conventions. U.S. officials have argued that France's extradition should be honored because Panama by law does not extradite its nationals.²⁴ Panama had filed an extradition request for Noriega in 1991.

While Panamanian officials have called for Noriega's extradition to Panama, they have not opposed the possibility of Noriega being extradited to France and have stated that the government would respect the decision of the U.S. courts on this matter. Some observers maintain that the Panamanian government is reluctant to have Noriega extradited to Panama, since some members of the ruling Democratic Revolutionary Party worked with Noriega when he controlled the government and are now reluctant to have Noriega return and revisit cases from the past. Other observers contend that Panamanian officials are reluctant to have Noriega return because of recent changes to the penal code that could allow Noriega to serve little, if any, of his sentence.²⁵

Overview of Current U.S.-Panamanian Relations

Since the 1989 U.S. military intervention, the United States has had close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. Today, about 25,000

²¹ Jay Weaver, "Manuel Noriega Extradition Goes to Court Wednesday," *Miami Herald*, January 13, 2009.

²² Kathia Martinez, "A Homecoming for Noriega after Miami Release? Many Hope Not," *Associated Press Newswires*, August 12, 2007.

²³ "Torrijos on Edge over Noriega Release," *Latin American Regional Report, Caribbean and Central America*, August 2007.

²⁴ Carmen Gentile, "Noriega Court Bid Called a Charade; Aims to Avoid Extradition," *Washington Times*, August 14, 2007.

²⁵ Marc Lacey, "An Ambivalent Panama Weighs Noriega's Debt and Threat," *New York Times*, July 29, 2007.

U.S. citizens reside in Panama, many retirees of the former Panama Canal Commission, and there are growing numbers of other American retirees in the western part of the country.²⁶

The current U.S. relationship with Panama is characterized by extensive cooperation on counternarcotics efforts, U.S. assistance to help Panama assure the security of the Canal, and a proposed bilateral free trade agreement (FTA). Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the United States has stressed that an FTA with Panama, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law.

U.S.-Panamanian negotiations for a bilateral FTA began in April 2004, and were completed in December 2006, although at the time U.S. officials stated the agreement was subject to additional discussions on labor and that the Administration would work with Congress to ensure strong bipartisan support. Subsequently, congressional leaders and the Bush Administration announced a bipartisan deal on May 10, 2007, whereby pending FTAs, including that with Panama, would include enforceable key labor and environmental standards. The United States and Panama ultimately signed the FTA on June 28, 2007, which included the enforceable labor and environmental provisions. Panama's National Assembly overwhelmingly approved the agreement on July 11, 2007, by vote of 58 to 3, with 1 abstention.

The U.S. Congress had been likely to consider implementing legislation for the agreement in the fall of 2007, but the September 1, 2007, election of Pedro Miguel González to head Panama's legislature for one year delayed consideration of the FTA. González is wanted in the United States for his alleged role in the murder of a U.S. serviceman in Panama, U.S. Army Sergeant Zak Hernández, in June 1992. González did not stand for re-election when his term expired September 1, 2008, and was replaced by another PRD official, Raúl Rodríguez, as Assembly president. As a result, the 111th Congress may turn to consideration of implementing legislation for the FTA.

The United States turned over control of the Canal to Panama at the end of 1999, according to the terms of the 1977 Panama Canal Treaty, at which point Panama assumed responsibility for operating and defending the Canal. All U.S. troops were withdrawn from Panama at that time and all U.S. military installations reverted to Panamanian control. However, under the terms of the Treaty on the Permanent Neutrality and Operation of the Panama Canal, or simply the Neutrality Treaty, the United States retains the right to use military force if necessary to reopen the Canal or restore its operations. U.S. officials congratulated Panama on the success of the October 2006 Canal expansion referendum, but also asserted that the challenge for the government is to ensure that the expansion project is conducted with transparency and without any hint of corruption.²⁷

Because of its relatively high per capita income level, the United States has not provided large amounts of foreign aid to Panama in recent years. Nevertheless, aid has included development assistance to improve business competitiveness and trade-led economic growth; child, survival and health assistance to help in the fight against HIV/AIDS; and security assistance to improve Panama's counter-terrorism capabilities, security programs, and maritime interdiction. In recent years, U.S. foreign assistance (including Peace Corps assistance) amounted to \$10.5 million in FY2006, \$12.2 million in FY2007, and an estimated \$10.6 million in FY2008, including \$2.9

²⁶ U.S. Department of State, Background Note: Panama, September 2008.

²⁷ U.S. Department of State, U.S. Embassy Panama, "Principal Deputy Assistant Secretary Charles S. Shapiro at Panama Week," and "Ambassador Eaton's Remarks at the Panama Week Power Breakfast," October 2006.

million in FY2008 supplemental assistance under the Mérida Initiative. That new program provides assistance to Mexico and Central to combat drug trafficking, gangs, and organized crime. For FY2009, an estimated \$20.5 million will be provided to Panama, including an estimated \$8.9 million in Mérida Initiative funding.

A number of U.S. agencies provide support to Panama. The U.S. Agency for International Development has a mission in Panama administering U.S. foreign aid programs, and the Peace Corps has over 170 volunteers in the country working on a range of development projects. The State Department, the Drug Enforcement Administration, the U.S. Coast Guard, and the Department of Homeland Security are involved in providing counternarcotics support to Panama. The Department of Health and Human Services provided support in 2007 to launch a Regional Training Center for health-care workers in Panama City that trains students from throughout Central America. The U.S. Southern Command (Southcom) also provides support to Panama through military exercises providing humanitarian and medical assistance, and at times provides emergency assistance in the case of natural disasters such as floods or droughts. Southcom also has sponsored annual multi-national training exercises since 2003 focused on the defense of the Panama Canal. Panama also hosts the Smithsonian Tropical Research Institute dedicated to studying biological diversity.

Panama also participates in the Container Security Initiative (CSI) operated by the U.S. Customs and Border Protection of the Department of Homeland Security, and the Megaports Initiative run by the National Nuclear Security Administration of the Department of Energy. Three Panamanian ports—Balboa, Colón, and Manzanillo—participate in the CSI, which uses a security regime to ensure that containers that pose a potential risk for terrorism are identified and inspected at foreign ports before they are placed on vessels destined for the United States. The Megaports Initiative, which is still being implemented, involves deploying radiation detection equipment to the three CSI ports in Panama in order to detect nuclear or radioactive materials.²⁸

Drug Trafficking and Money Laundering

An important concern for U.S. policymakers over the years has been securing Panamanian cooperation to combat drug-trafficking and money-laundering. Panama is a major transit country for illicit drugs from South America to the U.S. market because of its geographic location and its large maritime industry and containerized seaports. Moreover, the country's service-based economy, with a large banking sector and trading center (Colón Free Zone, CFZ), makes Panama vulnerable to money laundering. The State Department's February 2009 *International Narcotics Control Strategy Report* (INCSR) maintains that major Colombian and Mexican drug cartels, as well as Colombian illegally armed groups use Panama for drug trafficking and money laundering purposes. The report also maintains that the majority of money laundering in the country relates to proceeds from drug trafficking (especially the sale in the United States and Europe of cocaine produced in Colombia) or from the transshipment of smuggled, pirated, and counterfeit goods through the CFZ.

Drug traffickers use fishing vessels, cargo ships, small aircraft, and go-fast boats to move illicit drugs—primarily cocaine and heroin—through Panama. Some of the drugs are transferred to trucks for northbound travel or are placed in sea-freight containers for transport on cargo vessels.

²⁸ U.S. Department of Energy, National Nuclear Security Administration, "NNSA's Second Line of Defense Program, Fact Sheet, December 2008.

Traffickers also utilize hundreds of abandoned or unmonitored airstrips as well as couriers who transit Panama by commercial air flights. There also has been increasing domestic drug abuse, particularly among youth. Addiction has also increased significantly among Panama's Kuna indigenous population, whose lands lie just south of a transit zone for Colombian cocaine.²⁹

According to the 2009 INCSR, the Torrijos administration has "cooperated vigorously" with the United States on counternarcotics efforts. In 2008, according to the report, the government seized 51 metric tons of cocaine and over \$3 million in cash linked to drug trafficking, and confiscated \$1.5 million from bank accounts. U.S. support has included programs to improve Panama's ability to intercept, investigate, and prosecute illegal drug trafficking; strengthen Panama's judicial system; and improve Panama's border security. The United States also has provided resources to modernize and maintain vessels and bases of the National Maritime Service (SMN) and the National Police (PNP); train and equip an airport drug interdiction team; train offices to combat police corruption; and develop an effective community policing model to help control an emerging gang problem.

Looking ahead, the 2009 INCSR encourages Panama to devote sufficient resources to patrol its land borders with Colombia and Costa Rica and its coastline and adjacent sea-lanes. It also calls for Panama to increase the number of arrests and prosecutions in the areas of corruption and money laundering.

Over the past several years, Panamanian cooperation with U.S. law enforcement led to several major successful anti-drug operations. In January 2006, more than 20 people were arrested in New York and Panama in a heroin smuggling operation involving dozens of "swallowers" who transported the drug. In May 2006, law enforcement authorities from the United States, Panama, and several other countries broke up cocaine smuggling operation that used three islands on Panama's Caribbean coast to refuel fast boats and fishing trawlers carrying drugs. In March 2007, U.S. and Panamanian authorities cooperated in the interdiction of more than 21 tons of cocaine off the coast of Panama, valued at nearly \$300 million, the largest seizure in U.S. history.

Panama has made significant progress in strengthening its anti-money laundering regime since June 2000 when it was cited as a non-cooperative country in the fight against money laundering by the Financial Action Task Force (FATF), a multilateral anti-money laundering body. Subsequently, the government undertook a comprehensive effort to improve its anti-money laundering regime by enacting two laws and issuing two decrees in 2000. As a result of these efforts, the FATF removed Panama from its non-cooperative country list in June 2001.

The 2009 INCSR maintains that Panama has a comprehensive legal framework to detect, prevent, and combat money laundering and terrorist financing and has provided excellent cooperation with U.S. law enforcement agencies. Nevertheless, the State Department report maintains that Panama's level of enforcement, personnel, and resources devoted to anti-money laundering and combating the financing of terrorism needs to be improved, including the successful prosecution of cases. The report expressed concern about the issuance of bearer shares, and maintained that the government should take steps to ensure that these financial instruments are not used for

²⁹ Chris Kaul, "A New Foe Threatens Tribe's Independent Spirit," *Los Angeles Times*, January 3, 2006; "Panama Tribe Faces Threat as Cocaine Comes Ashore," Reuters, February 18, 2006; "Panama's Kuna Fear Drug Threat," *Latin American Weekly Report*, February 1, 2007.

money laundering. It also called on the government to devote more resources in order to ensure that the CFZ does not enable trade-based money laundering.

U.S. Trade Relations and a Potential Free Trade Agreement

Panama has largely a service-based economy, which historically has run a merchandise trade deficit with the United States. In 2008, the United States had a \$4.5 billion trade surplus with Panama, exporting \$377 million in goods and importing \$4.9 billion. Panama was the 40th largest U.S. export market in 2008.³⁰ Panama's major exports include fish and seafood, and fresh fruits. Major imports include oil, machinery and other capital goods, consumer goods, and foodstuffs. In 2008, about 38% of Panama's exports were destined for the United States, while about 30% of its imports were from the United States. The stock of U.S. foreign investment in Panama was estimated at \$6.2 billion in 2007, largely concentrated in the financial and wholesale sectors. This almost equaled the combined U.S. foreign investment in the five other Central American nations.³¹

With the exception of two years (1988-1989), when the United States was applying economic sanctions on Panama under General Noriega's rule, Panama has been a beneficiary of the U.S. preferential import program known as the Caribbean Basin Initiative (CBI) begun in 1984. The program was amended several times and made permanent in 1990. CBI benefits were expanded in 2000 with the enactment of the Caribbean Basin Trade Partnership Act (CBTPA) (Title II, P.L. 106-200), which provided NAFTA-equivalent trade benefits, including tariff preferences for textile and apparel goods, to certain CBI countries, including Panama, until September 30, 2008.

Panama and the United States began negotiations for a free trade agreement in April 2004. There had been expectations that the negotiations would be completed in early 2005, but continued contention over several issues and a lengthy hiatus prolonged the negotiations until December 2006. These included market access for agricultural products, considered sensitive by Panama; procurement provisions for the Panama Canal Authority regarding expansion activities; and sanitary control systems governing the entry of U.S. products and animals to enter the Panamanian market. Negotiations were suspended for some time in 2006 until after Panama held its Canal expansion referendum in October, but a tenth round led to the conclusion of negotiations on December 19, 2006.

Under the proposed agreement, over 88% of U.S. exports of consumer and industrial goods would become duty-free immediately, while remaining tariffs would be phased out over 10 years. Over 50% of U.S. agricultural exports to Panama would become duty-free immediately, while tariffs on most remaining farm products would be phased out within 15 years. In December 2006, Panama and the United States also signed a bilateral agreement on sanitary and phytosanitary measures in which Panama will recognize the equivalence of the U.S. food safety inspection to those of Panama and will no longer require individual plant inspections. Under the FTA, U.S. companies would be guaranteed a fair and transparent process to sell goods and services to Panamanian government entities, including the Panama Canal Authority.³²

³⁰ Department of Commerce statistics, as presented by World Trade Atlas.

³¹ U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business," September 2008, p. 58.

³² Office of the United States Trade Representative, "Free Trade with Panama, Brief Summary of the Agreement," (continued...)

When the negotiations were concluded, then-U.S. Trade Representative Susan Schwab stated that the agreement would be subject to additional discussions on labor, and that the Administration would work with both sides of the aisle in Congress to ensure strong bipartisan support before submitting it to Congress.³³ On May 10, 2007, congressional leaders and the Bush Administration announced a bipartisan trade deal whereby pending free trade agreements would include enforceable key labor and environmental standards. This included an obligation to adopt and maintain in practice five basic internationally recognized labor principles: freedom of association; recognition of the right to collective bargaining; elimination of forced or compulsory labor; abolition of child labor; and elimination of discrimination in respect of employment and occupation. (For a discussion on worker rights, see the “Human Rights” section above.)

The United States and Panama ultimately signed the proposed FTA on June 28, 2007, with the enforceable labor and environmental standards outlined in the bipartisan trade deal. Panama’s National Assembly ratified the agreement on July 11, 2007, by a vote of 58 to 3, with 1 abstention.

The U.S. Congress had been likely to consider implementing legislation for the agreement in the fall of 2007, but the September 1, 2007, election of Pedro Miguel González of the ruling PRD to head Panama’s legislature for one year delayed consideration of the FTA. González is wanted in the United States for his alleged role in the murder of U.S. Army Sergeant Zak Hernández and the attempted murder of U.S. Army Sergeant Ronald Marshall in June 1992. The State Department issued a statement expressing deep disappointment about the election of González because of his October 1992 indictment in the United States for the murder of Sergeant Hernández. Although González was acquitted in Panama in 1997 for the Hernández murder, observers maintain that the trial was marred by jury rigging and witness intimidation. González denies his involvement, and his lawyer asserts that ballistic tests in the murder were inconclusive. While polls in Panama in 2007 showed that Panamanians believed that González should have stepped down, the case also energized the populist anti-American wing of the ruling PRD.³⁴

González did not seek a second term as president of the National Assembly when his term expired on September 1, 2008, and another PRD official, Raúl Rodríguez, was elected Assembly president. As a result, the 111th Congress could consider implementing legislation for the FTA.

For more details on the bilateral FTA, see CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck.

Operation and Security of the Panama Canal

Historical Background and the Panama Canal Treaties

When Panama proclaimed its independence from Colombia in 1903, it concluded a treaty with the United States for U.S. rights to build, administer, and defend a canal cutting across the

(...continued)

December 19, 2006.

³³ Rosella Brevetti, “Panama, United States Conclude Negotiations on Free Trade Pact,” but Labor Issues Remain,” *International Trade Daily*, December 20, 2006.

³⁴ Marc Lacey, “Fugitive from U.S. Justice Leads Panama’s Assembly,” *New York Times*, November 28, 2007.

country and linking the Pacific and Atlantic oceans. (See **Figure 1**, *Map of Panama*, at the end of this report.) The treaty gave the United States rights in the so-called Canal Zone (about 10 miles wide and 50 miles long) “as if it were sovereign” and “in perpetuity.” Construction of the canal was completed in 1914. In the 1960s, growing resentment in Panama over the extent of U.S. rights in the country led to pressure to negotiate a new treaty arrangement for the operation of the Canal. Draft treaties were completed in 1967 but ultimately rejected by Panama in 1970.

New negotiations ultimately led to the September 1977 signing of the two Panama Canal Treaties by President Jimmy Carter and Panamanian head of government General Omar Torrijos. Under the Panama Canal Treaty, the United States was given primary responsibility for operating and defending the Canal until December 31, 1999. (Subsequent U.S. implementing legislation established the Panama Canal Commission to operate the Canal until the end of 1999.) Under the Treaty on the Permanent Neutrality and Operation of the Panama Canal, or simply the Neutrality Treaty, the two countries agreed to maintain a regime of neutrality, whereby the Canal would be open to ships of all nations. The U.S. Senate gave its advice and consent to the Neutrality Treaty on March 16, 1978, and to the Panama Canal Treaty on April 18, 1978, both by a vote of 68-32, with various amendments, conditions, understandings, and reservations. Panama and the United States exchanged instruments of ratification for the two treaties on June 16, 1978, and the two treaties entered into force on October 1, 1979.

Some treaty critics have argued that Panama did not accept the amendments, conditions, reservations, and understandings of the U.S. Senate, including the DeConcini condition to the Neutrality Treaty. That condition states: “if the Canal is closed, or its operations are interfered with, the United States of America and the Republic of Panama shall each independently have the right to take such steps as each deems necessary, in accordance with its constitutional processes, including the use of military force in the Republic of Panama, to reopen the Canal or restore the operations of the Canal, as the case may be.” However, others argued that Panama, in fact, had accepted all U.S. Senate amendments. The State Department asserted that Panama expressly accepted all amendments, conditions, and understandings to the two treaties, including the DeConcini condition. The United States and Panama signed the instruments of ratification for both treaties, which incorporated all the Senate provisions. The two countries cooperated throughout the years on matters related to the canal and established five binational bodies to handle these issues. Two of the bodies were set up to address defense affairs and conducted at least sixteen joint military exercises between 1979 and 1985 involving Panamanian and U.S. forces.

Canal Transition and Current Status

Over the years, U.S. officials consistently affirmed a commitment to follow through with the Panama Canal Treaty and turn the Canal over to Panama at the end of 1999. That transition occurred smoothly on December 31, 1999. The Panama Canal Treaty terminated on that date, and the Panama Canal Commission (PCC), the U.S. agency operating the Canal, was succeeded by the Panama Canal Authority (ACP), a Panamanian government agency established in 1997.

Under the terms of the Neutrality Treaty, which has no termination date, Panama has had responsibility for operating and defending the Canal since the end of 1999. As noted above, both Panama and the United States, however, in exercising their responsibilities to maintain the regime of neutrality (keeping the Canal secure and open to all nations on equal terms) independently have the right to use military force to reopen the Canal or restore its operations. This is delineated in the first condition of the Neutrality Treaty.

The secure operation of the Panama Canal remains a U.S. interest since about 13%-14% of U.S. ocean-borne cargo transits through the Canal. The United States provides assistance to Panama to improve its ability to provide security for the Canal and to enhance port and maritime security. U.S. officials have consistently expressed satisfaction that Panama is running the Canal efficiently, and since 2003, the U.S. military has conducted exercises with Panama and other countries to protect the Canal in case of attack.³⁵

Headed by Alberto Alemán Zubieta, the Panama Canal Authority has run the Canal for more than nine years and has been lauded for increasing Canal safety and efficiency. In January 2006, the Martín Torrijos government established a social investment fund backed by Panama Canal revenues that invests in schools, hospitals, bridges, roads, and other social projects. The initiative, according to the government, is designed to show Panamanians that the Canal is contributing to economic development and improving the quality of life for Panamanians.³⁶

Canal Expansion Project

On April 24, 2006, the Panama Canal Authority presented to President Torrijos its recommendation to build a third channel and new set of locks (one on the Atlantic and one on the Pacific) that would double the capacity of the Canal and allow it to accommodate giant container cargo ships known as post-Panamax ships. The proposal would also widen and deepen existing channels and elevate Gatun Lake's maximum operating level. According to the proposed plan, the overall project would begin in 2007 and take from seven to eight years to complete. The estimated cost of the project is \$5.25 billion, to be self-financed by the ACP through graduated toll increases and external bridge financing of about \$2.3 billion that would be paid off in about 10 years. The Panamanian government would not incur any sovereign debt as a result of the project. According to the ACP, the overall objectives of the expansion project are to (1) achieve long-term sustainability and growth for the Canal's financial contributions to the Panamanian national treasury; (2) maintain the Canal's competitiveness; (3) increase the Canal's capacity to capture the growing world tonnage demand; and (4) make the Canal more productive, safe, and efficient.³⁷

President Torrijos and his Cabinet approved the expansion project on June 14, 2006, and the National Assembly overwhelmingly approved it on July 10, 2006, with 72 out of 78 deputies voting for the project. Pursuant to Panama's Constitution (Article 319), the project had to be submitted to a national referendum no sooner than 90 days from the date of approval by the Assembly. The Torrijos government chose to hold the referendum on October 22, 2006, close to the anniversary of October 23, 1977, the date when Panamanians approved the two Panama Canal treaties in a national plebiscite by a two-to-one margin. A poll from early September 2006 showed almost 64% public support for the Canal expansion project, but on election day the expansion project received 78% of the vote.

³⁵ Senate Committee on Armed Services, Hearing, "Testimony on United States Southern Command, United States Northern Command, and United States Joint Forces Command in Review of the Defense Authorization Request for Fiscal Year 2008 and the Future Years Defense Program," March 22, 2007, *Federal News Service*.

³⁶ Rainbow Nelson, "Canal Cash to Pay for Social Development," *Lloyd's List*, January 18, 2006.

³⁷ Autoridad del Canal de Panama (ACP), "Proposal for the Expansion of the Panama Canal, Third Set of Locks Project," April 24, 2006.

The Torrijos government advanced the project as integral to Panama's future economic development. The government maintained that some 7,000 direct jobs would be created by the project, as well as some 35,000 indirect jobs. President Torrijos asserted that increased revenue from the Canal arising from the expansion project would allow the government to launch social development programs and improve living conditions in the country.³⁸

There had been some vocal opposition to the Canal expansion project. The organization known as the Peasant Coordinator Against the Dams (CCCE, *Coordinadora Campesina Contra los Embalses*), consisting of agricultural, civil, and environmental organizations, asserted that the expansion project would lead to flooding and would drive people from their homes. An umbrella protest group known as the National Front for the Defense of Economic and Social Rights (Frenadeso), which was formed in 2005 during protests against social security reforms, called for a "no" vote.³⁹ Former Presidents Jorge Illueca and Guillermo Endara, as well as former Panama Canal administrator Fernando Manfredo, also opposed the expansion project, maintaining that the price was too high and too much of a gamble. Critics feared that the total price tag could rise considerably and expressed concern that toll increases could make alternative routes more economically attractive.⁴⁰

The ACP is moving ahead with the Canal expansion project. The Panamanian government officially launched the Canal expansion project on September 3, 2007, with a ceremony led by former President Jimmy Carter whose Administration negotiated the Panama Canal Treaties. The project is expected to be completed by 2014. In mid-December 2008, the ACP awarded the third of four dry excavation contracts to a Costa Rican company. The excavation work is to create an access channel linking the new Pacific locks with the existing Gaillard Cut, which is the narrowest stretch of the Canal. Despite the global financial crisis, the ACP has been able to secure financing for the expansion project. In early March 2009, three multinational consortiums (one led by Bechtel International and another involving Tetra Tech, two companies headquartered in California) placed bids for the estimated \$2.73 billion contract to build the new set of locks.⁴¹

Contamination of Firing Ranges and San Jose Island

For a number of years, a sensitive area in U.S.-Panamanian relations was Panama's desire to have the United States clean up three contaminated firing ranges in Panama as well as San Jose Island (one of the Pearl Islands) which was contaminated with chemical weapons used in training exercises during World War II. Those two issues, however, have been dormant for several years.

The three former firing ranges (Empire, Piña, Balboa West) were used by the U.S. military for live-fire exercises and testing of ground explosives during its tenure in the Panama. The Piña range was turned over to Panama in June 1999, while the Empire and Balboa West ranges were turned over in July 1999. Some 60,000 Panamanians live in areas surrounding the ranges, and

³⁸ "Panama: Torrijos Wins Backing to Expand Canal," *Latin American Weekly Report*, October 24, 2006; "Panama's Torrijos on Referendum Results: 'Opportunity to Materialize Our Hopes,'" Open Source Center (*Panama City TVN*), October 23, 2006.

³⁹ "Torrijos Appeals for Approval of Canal Expansion," *Latinnews Daily*, September 1, 2006.

⁴⁰ "Panama: Torrijos Reveals Plans to Expand Canal," *Latinnews Daily*, April 25, 2006; Chris Kraul and Ronald D.White, "Panama is Preparing to Beef up the Canal," *Los Angeles Times*, April 24, 2006; John Lyons, "Panama Takes Step Toward Expanding the Canal," *Wall Street Journal*, April 24, 2006.

⁴¹ "Panama: Groups Bid on Canal Expansion," *Economist Intelligence Unit, Business Latin America*, March 9, 2009.

reportedly at least 24 Panamanians have been killed in the last two decades by coming into contact with the explosives.⁴² Estimates of the cost to clean up the unexploded bombs and other contaminants range from \$400 million to \$1 billion.⁴³

U.S. officials maintain that it is not possible to remove the unexploded ordinance without tearing down the rain forest and threatening the Canal's watershed. They also point to a Canal treaty provision which states that the United States is obligated to take all measures "insofar as may be practicable" in order to ensure that hazards to human life, health and safety were removed from the defense sites reverting to Panama. In response to a press question while attending Panama's centennial celebration in November 2003, Secretary of State Colin Powell maintained that the United States had already met its obligations to clean up the ranges.⁴⁴

The controversy over the U.S. cleanup of the ranges at times has been an irritant in the bilateral relationship, but at this juncture appears to be somewhat of a dormant issue. Officials of the Pérez Balladares government (1994-1999) believed that the United States was reneging on its treaty commitment and wanted to press the United States to clean up the firing ranges regardless of economic cost. The Moscoso government raised the issue during her October 19, 1999, meeting with then President Clinton in Washington. At the time, President Clinton stated that the United States had met its treaty obligations to clean up the ranges to the extent practicable, but did say that the United States wanted to stay engaged and work with Panama on the issue. The issue also came up during then Secretary of State Albright's visit to Panama on January 15, 2000. In a December 2001 letter to Secretary of State Colin Powell, Panama's Foreign Minister reiterated his country's call to clean up the three firing ranges.⁴⁵ In April 2003, Panamanian Foreign Minister Harmodio Arias asserted that the issue of clearing the firing ranges was not dead.⁴⁶ During a November 2005 visit to Panama, President Bush reiterated the view that the United States had met its obligations under the treaty. According to the President, "we had obligations under the treaty, and we felt like we met those obligations." Despite the disagreement, President Bush indicated that Panama and the United States could discuss the issue in a constructive way since the two countries have friendly relations.⁴⁷

With regard to San Jose Island, In May 2002, U.S. Embassy officials in Panama announced that a plan was being prepared to clean up the island, which was contaminated with chemical weapons used in training exercises during World War II.⁴⁸ The Organization for the Prohibition of Chemical Weapon (OPCW) had confirmed in July 2001 that there were several live chemical bombs on the island, and Panama evacuated residents of the island.⁴⁹ In September 2003,

⁴² "No Home on Panama's Range, U.S. Munitions Scattered Over Canal Training Zones," *Washington Post*, January 10, 2000; Vanessa Hua, "U.S. Weapons, U.S. Mess? Panama," *Bulletin of the Atomic Scientists*, July 1, 2002.

⁴³ "An Expensive Farewell to Arms: The U.S. Has Abandoned 51 Military Sites in Canada," *The Gazette (Montreal)*, April 28, 2001.

⁴⁴ U.S. Department of State. International Information Programs. Washington File. "Colin Powell Hails Panama's 100 Years of Independence," November 3, 2004.

⁴⁵ "Panama Asks U.S. Military to Clean Up Former Bases," *Agence France Presse*, December 27, 2001.

⁴⁶ Foreign Broadcast Information Service, Highlights: Central America Press, April 8, 2003 ("Panamanian Foreign Minister Says Firing Range Cleanup Not Dead Issue," *La Prensa*)

⁴⁷ White House, Office of the Press Secretary, "President Bush Meets with President Torrijos of Panama," November 7, 2005; Edwin Chen, "Bush's Trip Ends with Discord," *Los Angeles Times*, November 8, 2005; William Douglas, "Bush's Last Stop: Panama," *Miami Herald*, November 8, 2005.

⁴⁸ "U.S. Creates Chemical Weapon Clean-up Plan on Panamanian Island," *EFE News Service*, May 27, 2002.

⁴⁹ "Panama-U.S. Panama Clears Isle After Finding World War II Chemical Weapons," *EFE News Services*, (continued...)

however, Panama rejected a U.S. offer for the environmental cleanup of the island that would have reportedly offered more than \$2 million in equipment and training so that Panama could clean up the island. According to Foreign Minister Harmodio Arias, Panama rejected the offer because it did not want to sign a document releasing the United States from all liabilities.⁵⁰ A provision in the FY2004 Foreign Operations appropriations measure (P.L. 108-199, Division D) would have permitted Foreign Military Financing for the San Jose Island cleanup.

(...continued)

September 6, 2001.

⁵⁰ Victor Torres, "Foreign Minister Explains Why Panama Rejected U.S. San Jose Island Cleanup Offer," *La Prensa* (Panama), October 12, 2003 (as translated by Foreign Broadcast Information Service).

Figure 1. Map of Panama



Source: Map Resources. Adapted by CRS.

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